

Message Text

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ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 NSC-05 NSCE-00 CIAE-00 PM-03

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FM USMISSION OECD PARIS

TO SECSTATE WASH DC 4450

C O N F I D E N T I A L SECTION 01 OF 02 OECD PARIS 28255

LIMDIS

PASS CEA FOR GREENSPAN, TREASURY FOR BENNETT, FRB FOR SOLOMON

E.O. 11652: GDS

TAGS: ECON, OECD

SUBJECT: OECD BIG SEVEN VIEWS ON INFLATION AND UNEMPLOYMENT

REF: USOECD 27750

1. SUMMARY. HEADS OF DELEGATIONS OF MAJOR SEVEN COUNTRIES MET IN RESTRICTED SESSION SUNDAY EVENING, NOVEMBER 17, PRIOR TO OPENING OF ECONOMIC POLICY COMMITTEE MEETING. GENERAL CONSENSUS WAS THAT INFLATION STILL NUMBER ONE POLICY PROBLEM AND THAT GOVERNMENTS IN NO HASTE TO ADOPT EXPANSIONARY POLICIES. FOLLOWING REPORT ON MEETING IS BASED ON DR. GREENSPAN'S ORAL REPORT TO U.S. DELEGATION AND HAS NOT BEEN CLEARED WITH HIM. END SUMMARY.

2. EXPANDED BUREAU OF EPC, INCLUDING HEADS OF DELEGATIONS OF BIG SEVEN COUNTRIES PLUS EPC CHAIRMAN SIR DOUGLAS ALLEN AND SEC GEN VAN LENNEP, MET SUNDAY EVENING PRIOR OPENING OF EPC PLENARY TO EXCHANGE VIEWS ON CURRENT ECONOMIC OUTLOOK AND POLICY QUESTIONS. CONSENSUS OF GROUP WAS THAT INFLATION REMAINS NUMBER ONE POLICY PROBLEM AND THAT COUNTRIES SHOULD NOT MOVE TOO QUICKLY

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PROBLEM AND THAT COUNTRIES SHOULD NOT MOVE TOO QUICKLY

TO ADOPT EXPANSIONARY POLICIES. ONE FACTOR WAS DISCOVERY THAT MOST MEMBERS OF GROUP WERE EXPERIENCING SIMILAR PROBLEMS OF INTERNAL STRUCTURAL IMBALANCE, WITH CAPACITY STILL STRAINED IN STEEL AND CHEMICALS INDUSTRIES WHILE CONSIDERABLE SLACK HAS DEVELOPED IN CONSTRUCTION AND AUTOMOBILE SECTORS. THERE WAS SOME CONCERN THAT INVESTMENT RECOVERY MIGHT BE AFFECTED BY POSSIBLE DRYING UP OF LONG-TERM MONEY DUE TO DEPRESSED STATE OF STOCK AND BOND MARKETS, AND THAT THIS MIGHT STRAIN SYSTEM BY PUTTING GREATER PRESSURE ON BANKS FOR SHORT TERM FUNDS TO FINANCE LONGER TERM REQUIREMENTS. WITH REGARD TO CURRENT DOWNTURN IN U.S. ECONOMY AND ITS EFFECTS ON OTHER COUNTRIES, EPC BUREAU MEMBERS SHOWED LESS CONCERN THAN MIGHT HAVE BEEN EXPECTED.

3. ALL COUNTRIES ANTICIPATED THAT UNEMPLOYMENT WOULD INCREASE, AND FRANCE, ITALY AND U.K. WERE PARTICULARLY CONCERNED WITH POSSIBILITY OF LABOR UNREST. U.S. SAW DANGER OF EASING UP TOO SOON AND GIVING FURTHER STIMULUS TO INFLATION, AND JAPAN, GERMANY AND FRANCE EXPRESSED SIMILAR CONCERN REGARDING IMPACT OF INFLATION ON UPCOMING WAGE NEGOTIATIONS. AT SAME TIME, GROUP WAS AWARE THAT EPC SHOULD NOT GIVE IMPRESSION THAT COUNTRIES WERE WILLING TO TOLERATE FURTHER SLACK SINCE THIS MIGHT CREATE UNDUE AURA OF PESSIMISM REGARDING COUNTRIES' WILLINGNESS AND ABILITY TO DEAL EFFECTIVELY WITH PROBLEMS.

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4. ALTHOUGH INTERNAL SITUATIONS BROADLY SIMILAR, EXTERNAL POSITIONS OF BIG SEVEN ARE VASTLY DIFFERENT. GERMANY RECOGNIZED THAT SURPLUS COUNTRIES OUGHT TO EXPAND INTERNAL DEMAND, BUT EXPRESSED VIEW THAT DEFICIT COUNTRIES SHOULD CORRESPONDINGLY SEEK TO APPLY RESTRICTIVE INTERNAL MEASURES. THIS VIEW CAUSED CONCERN FOR U.K., ITALY AND SECGEN.

5. THERE WAS PRACTICALLY NO DISCUSSION OF INCOMES POLICY DESPITE FACT THAT SECRETARIAT HAD FEATURED THIS IN EPC MAIN ISSUES PAPER. ONLY CANADA MADE AN OBLIQUE REFERENCE TO SUBJECT, WHICH WAS NOT FOLLOWED UP BY GROUP.

6. GENERAL FEELING OF PARTICIPANTS WAS THAT RESTRICTED GROUP MEETING WAS USEFUL VEHICLE FOR FRANK EXCHANGE OF VIEWS UNDER LESS FORMAL CONDITIONS THAN EXIST IN EPC PLENARY. THERE WAS NO MOVE, HOWEVER, TO INSTITUTIONALIZE SUCH MEETINGS OF EXPANDED BUREAU.
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